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FM AMEMBASSY MEXICO
TO RUEHC/SECSTATE WASHDC PRIORITY 4754
INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE
RUCPDO/DEPT OF COMMERCE WASHDC
RUEHRC/DEPT OF AGRICULTURE WASHDC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUEHC/DEPT OF LABOR WASHDC
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UNCLAS SECTION 01 OF 02 MEXICO 007111

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STATE FOR EB/ESC MCMANUS AND IZZO
USDOC FOR 4320/ITA/MAC/WH/ONAFITA/ARUDMAN
USDOC FOR ITS/TD/ENERGY DIVISION
TREASURY FOR IA (ALICE FAIBISHENKO)
DOE FOR INTERNATIONAL AFFAIRS KDEUTSCH AND SLADISLAW
STATE PASS TO USTR (EISSENSTAT/MELLE)
STATE PASS TO FEDERAL RESERVE (CARLOS ARTETA)
NSC FOR DAN FISK, CINDY PENDLETON

E.O. 12958: N/A

TAGS: [ECON](#) [ECPS](#) [ELAB](#) [EFIN](#) [PGOV](#) [PREL](#) [MX](#)

SUBJECT: MEXICO ECONOMIC NOTES, DECEMBER 21 - DECEMBER 28, 2006

REF: A. MEXICO 7064

[1](#)B. MEXICO 7049

Summary

[1](#)1. (U) Mexico's 2007 federal budget has been approved by the Mexican Congress and published in the Official Gazette. The US\$208-billion budget largely reflects President Felipe Calderon's initial proposal, but Congress edged up funding for education, highways, and pensions in rural areas, while cutting funding for the judiciary, Congress, and several government-owned companies. A local research center says that the Senate's refusal to approve a 5-percent tax on soft drinks shows that it will be difficult to reach consensus on fiscal reform. On the positive side, opposition lawmakers praised Finance Secretary Agustin Carstens' willingness to listen and negotiate effectively during the budget process. As part of the budget approval process, Mexico has now complied with a WTO ruling and eliminated a discriminatory 20-percent tax on beverages sweetened with anything other than sugar cane. Despite the show of political unity in Congress' approval of the budget, peso bonds declined due to expectations that the Bank of Mexico may hold off cutting interest rates next quarter as it waits for further signs inflation is slowing. Mexico's trade deficit widened in November to its highest level in almost two years (US\$1.57 billion) as strong economic growth spurred imports ahead of the Christmas holiday. In a sign of continuing growth in the banking sector, the Secretariat of Finance gave final authorization to UBS Bank Mexico to operate in Mexico. Finally, despite complaints from at least one U.S. airline, Mexican airport authorities told the Embassy that Mexico City airport's new baggage handling system is not causing delays. End Summary.

Mexico's 2007 Federal Budget is Approved

12. (U) As reported in Ref A, the Chamber of Deputies gave final approval to Mexico's US\$208-billion budget package on December 23. President Felipe Calderon's initial budget proposal passed largely intact, though lawmakers scrapped a new 5-percent tax the administration wanted to impose on soft drinks, and it edged up funding for education, highways, and pensions in rural areas. To help offset these plus ups, Congress dipped into Mexico's Oil Stabilization Fund and decreased funding to the judiciary, the state oil company, Congress, the Federal Electricity Commission, and the Federal Electoral Institute. As reported in Ref B, when Congress passed the revenue component of the budget on December 21, it eliminated the discriminatory 20-percent tax on beverages sweetened with anything other than sugar cane. The budget package has been signed by Calderon and published in the Official Gazette. On December 27, Calderon praised lawmakers for the responsibility they showed during the budget process.

Local Research Center Sees Difficult Future for Fiscal Reform

13. (U) The Private Sector Economic Studies Center (CEESP) said publicly that it believes reaching agreement on fiscal reform will be difficult, noting that the Senate's refusal to approve the 5-percent tax on soft drinks shows that lawmakers are still unwilling to tax consumption instead of income. CEESP's analysts criticized how the government relies on crude oil revenues to increase social spending, rather than finding alternate revenue sources. On the positive side, opposition lawmakers publicly praised Finance Secretary Agustin Carstens' willingness to listen and negotiate effectively during the budget process. The government's ability to work with Congress will undoubtedly be key to securing passage of much-needed economic reforms.

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Finance Secretariat Authorizes a New Bank

14. (U) The Secretariat of Finance gave final authorization to UBS Bank Mexico to operate in Mexico. The bank has subsidiaries in more than 40 countries, including the U.S.

Bonds Fall, Trade Gap Widens to Two-year High

15. (U) Peso bonds declined on expectations that the Bank of Mexico (BOM) may hold off cutting interest rates next quarter as it waits for further signs inflation is slowing. Speculation that the BOM will wait until the second quarter of 2007 to cut its benchmark rate picked up after a report last week showed consumer prices in the first half of December rose more than economists expected. Policymakers in May stopped nine straight months of reductions that brought the benchmark lending rate down to 7 percent from 9.75 percent in 2005. The yield on Mexico's benchmark 8-percent bond due in December 2015 rose 3 basis points, or 0.03 percentage points, to 7.50 percent.

16. (U) Mexico's trade deficit widened in November to its highest level in almost two years as strong economic growth spurred imports ahead of the Christmas holiday. Mexico posted a trade deficit of US\$1.57 billion, the Finance Secretariat said in a public trade report, compared with a

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deficit of US\$1.23 billion in November. Economists had expected a trade deficit of US\$1.83 billion, according to estimates in a recent Bloomberg survey.

Mexico City Airport's Baggage Handling System Functioning

17. (U) In response to urgent queries from the State Department Economic and Business Bureau (EB) about reports from U.S.-based airlines of chaotic baggage handling conditions at Mexico City's airport, Post contacted Mexican airport authorities. Airport officials quickly responded to

Post's inquiries, saying that the baggage belt had malfunctioned in the high volume week before Christmas but that the problem had been resolved the same day. Regarding airline complaints that a new baggage screening system at the airport was causing massive delays, Mexican airport officials said that while there have been some delays, in general the system (which has been operating at 100% since November) is working. The system, they say, is the same used by the Transportation Security Administration (TSA) in the United States. Airport officials requested more information about the problems airlines have had. Mexican airport authorities invited Econoff and a TSA representative for a tour of the new system, while welcoming ideas from the USG on how to make the system more efficient. The Embassy has requested more information from EB regarding the specifics of the complaints. There has been no media coverage of delays at the airport due to the new baggage system or other problems.

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